

FDIC State Profile

Winter 2004

Kentucky

Kentucky's labor market continues to improve.

- Kentucky's third quarter unemployment rate improved to 5 percent, noticeably lower than the recent peak of 6.3 percent in mid-2003 (See Chart 1). The improvement was widespread among Kentucky counties, with more than half experiencing significant decreases in the unemployment rate over the past four quarters.
- Job growth in Kentucky accelerated to 1 percent in the year ending third quarter 2004, the fastest pace since before the 2001 recession. These developments mirrored aggregate trends for the nation.
- All major sectors—except trade and transportation, government, and manufacturing—saw employment gains relative to the same period one year ago (See Chart 2). Despite continued declines in manufacturing payrolls, the sector showed signs of progress as the rate of job loss slowed substantially compared with the losses experienced from 2001 through 2003.
- In third quarter, however, apparel and plastics firms cut payrolls by 24,000, accounting for 66 percent of the loss in nondurable manufacturing jobs. This reversal in the nondurable-goods sector, which makes up 37 percent of all manufacturing jobs in Kentucky, somewhat constrained the improving trend in the manufacturing sector (See Chart 3).

Outlook for Kentucky households brightens.

- Kentucky's improved labor market conditions spurred faster personal income growth in the past four quarters, when year-over-year growth ranged between 4.5 and 5.3 percent.
- In third quarter 2004, personal bankruptcy filings were 9 percent lower than one year earlier. The improvement in 2004 contrasts with several years of consistent growth in these filings and should continue as the state and national economies continue to strengthen.
- Permits for residential buildings were almost 11 percent higher in third quarter 2004 than a year earlier but differed considerably among property types. Single-family home

Chart 1: Widespread Job Growth Helps Reduce Kentucky's Unemployment Rate

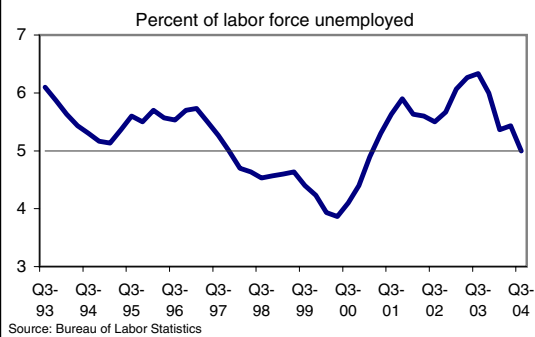


Chart 2 : Most Sectors Experienced Employment Gains During the Past Year

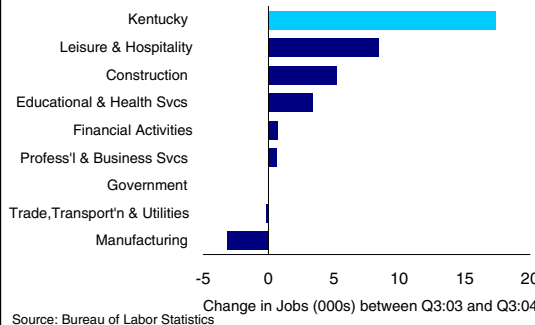
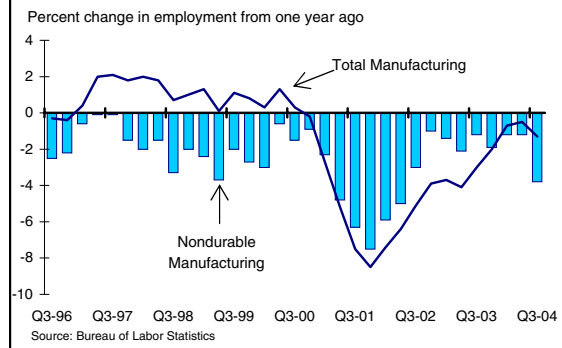


Chart 3: Weakness in Nondurable Goods Stalls Manufacturing Improvement



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permits remained high but showed little change from a year earlier. Permits for five-plus family buildings, in contrast, rose dramatically in the second and third quarters and reached the highest levels since 1999.

Earnings remain stable and loan quality improves among Kentucky's community banks.

- The return on assets (ROA) for Kentucky's community institutions improved slightly in third quarter relative to one year ago, rising by 0.05 percentage points.¹ While banks and thrifts experienced lower noninterest income and higher noninterest expenses, they also experienced lower provision expenses and higher net interest income (See Table 1).
- The year-to-date net interest margin (NIM) rose modestly to 3.94 percent during the third quarter as the cost of funding assets during the past year dropped by more than the yield on earnings assets. Even so, the year-to-date NIMs for third quarters 2004 and 2003 were below 4 percent, in contrast with the prior 10 years when the margin ranged from 4.0 to 4.42 percent.
- The past-due loan rate declined 0.44 percentage points from third quarter 2003, indicating improved loan quality among Kentucky's community banks. At 2.18 percent in the third quarter, the percent of loans past due returned to pre-recession levels.
- Past-due rates for all major loan categories declined during the past year (See Chart 4). In addition, net charge-offs fell 23 basis points from the same period one year ago.
- Reserves to noncurrent loans increased to 131.5 percent in the third quarter. However, reserve coverage for total loans, at 1.31 percent, was the lowest since fourth quarter 2002.

Restructuring continues in Kentucky's banking market.

- During the past ten years, the number of head offices located in Kentucky declined by 112, to 240 at mid-year 2004. This 32 percent decline is in line with the rest of the nation. However, growth in branch offices in the state outpaced national averages; 356 new branch offices were established, an increase of 32 percent (See Chart 5).
- Reflecting mergers and other developments, the number of bank facilities (main offices and branches) controlled by state-chartered institutions declined 22 percent during the past decade to 1,134 at mid-year 2004. In contrast, the number of facilities controlled by out-of-state institutions grew from 8 in 1994 to 589 in 2004, when

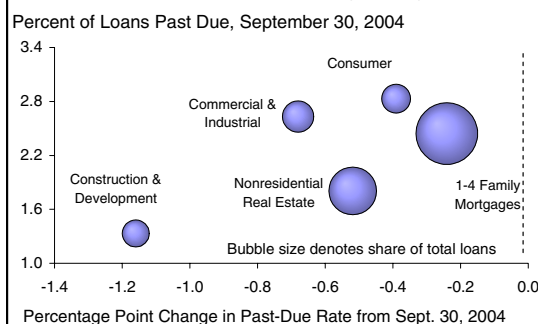
they accounted for 34 percent of banking facilities in Kentucky.

Table 1: Small Changes Seen in Earnings Fundamentals

Income statement contribution (as a percentage of average assets)			
	3 months ended September 30		Percentage Point Change
	2003	2004	
Net Interest Income	3.61	3.74	0.13
Noninterest Income	0.89	0.83	-0.06
Noninterest Expense	-2.88	-2.98	-0.10
Provision Expense	-0.37	-0.26	0.11
Security Gains & Losses	0.04	0.03	-0.01
Income Taxes	-0.28	-0.30	-0.02
Net Income (ROA)	1.01	1.06	0.05

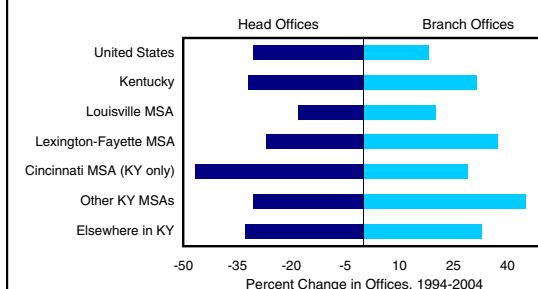
Source: FDIC, for Kentucky community institutions

Chart 4: Past-Due Rates Improved Across All Major Lending Categories



Source: FDIC, for Kentucky community institutions

Chart 5: Bank Branching in Kentucky Outpaces the Nation



Source: FDIC/OTS Summary of Deposits

¹Community institutions are insured banks and thrifts with less than \$1 billion in assets, excluding new (less than three years old) and specialty banks.

Kentucky at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	236	247	249	260	279
Total Assets (in thousands)	49,681,788	50,016,696	55,540,574	56,771,411	53,491,699
New Institutions (# < 3 years)	4	8	12	15	17
New Institutions (# < 9 years)	38	42	40	41	41
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.49	9.19	9.28	9.47	9.72
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.96%	2.21%	2.21%	2.31%	1.94%
Past-Due and Nonaccrual >= 5%	26	32	32	36	27
ALLL/Total Loans (median %)	1.32%	1.30%	1.26%	1.16%	1.16%
ALLL/Noncurrent Loans (median multiple)	1.52	1.36	1.62	1.41	1.65
Net Loan Losses/Loans (aggregate)	0.23%	0.49%	0.53%	0.45%	0.24%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	14	14	22	20	18
Percent Unprofitable	5.93%	5.67%	8.84%	7.69%	6.45%
Return on Assets (median %)	1.09	1.11	1.11	1.03	1.19
25th Percentile	0.73	0.72	0.72	0.57	0.78
Net Interest Margin (median %)	4.03%	3.95%	4.02%	3.96%	4.25%
Yield on Earning Assets (median)	5.76%	6.03%	6.89%	8.16%	8.40%
Cost of Funding Earning Assets (median)	1.71%	2.13%	2.84%	4.19%	4.13%
Provisions to Avg. Assets (median)	0.16%	0.20%	0.19%	0.19%	0.16%
Noninterest Income to Avg. Assets (median)	0.70%	0.73%	0.67%	0.64%	0.60%
Overhead to Avg. Assets (median)	2.92%	2.87%	2.82%	2.87%	2.80%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	83.95%	79.54%	81.38%	82.96%	86.50%
Loans to Assets (median %)	68.98%	66.29%	67.02%	67.71%	69.39%
Brokered Deposits (# of Institutions)	40	39	35	41	39
Bro. Deps./Assets (median for above inst.)	2.99%	2.34%	1.22%	0.76%	1.54%
Noncore Funding to Assets (median)	21.06%	20.15%	19.69%	20.56%	20.34%
Core Funding to Assets (median)	67.32%	68.06%	68.00%	67.72%	67.92%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	162	162	163	166	181
National	42	49	51	52	55
State Member	9	9	8	11	9
S&L	9	9	10	10	11
Savings Bank	14	18	17	21	23
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	167	24,080,137	70.76%	48.47%	
Lexington KY	22	5,160,558	9.32%	10.39%	
Louisville KY-IN	17	15,257,102	7.20%	30.71%	
Cincinnati OH-KY-IN PMSA	14	1,923,867	5.93%	3.87%	
Huntington-Ashland WV-KY-OH	8	1,384,256	3.39%	2.79%	
Owensboro KY	3	759,574	1.27%	1.53%	
Clarksville-Hopkinsville TN-KY	3	921,110	1.27%	1.85%	
Evansville-Henderson IN-KY	2	195,184	0.85%	0.39%	